



Fiscal Services Division
P.O. Box 942703
Sacramento, CA 94229-2703
Telecommunications Device for the Deaf - (916) 795-3240
(916) 795-7756 FAX (916) 795-7900

March 13, 2009

AGENDA ITEM 8

TO: MEMBERS OF THE FINANCE COMMITTEE

- I. SUBJECT:** Fiscal Year 2009-10 Budget Proposals (First Reading)
- II. PROGRAM:** Administration
- III. RECOMMENDATIONS:**
- (1) The Committee accept the proposed California Public Employees' Retirement System (CalPERS) Fiscal Year (FY) 2009-10 Administrative Budget of \$334,196,000 and 2,315 positions and recommend the Board of Administration (Board) approve the Budget as a first reading.
 - (2) The Committee accept the proposed CalPERS FY 2009-10 Enterprise Projects Budget of \$88,985,000 and recommend the Board approve the Budget as a first reading.
 - (3) The Committee accept the proposed FY 2009-10 CalPERS Headquarters Building Account (CHBA) Budget of \$36,850,000 and recommend the Board approve the Budget as a first reading.
 - (4) Approve the transmittal of this agenda item to the Joint Legislative Budget Committee, fiscal committees of the Legislature, State Controller, and Department of Finance, in accordance with the Budget Act of 2008, and to the Legislative Analyst's Office, State and Consumer Services Agency, and the Office of the Legislative Counsel.

IV. ANALYSIS

Prior to the planning cycle for the FY 2008-09 mid-year process, CalPERS staff recognized the State's economic changes. In respect to our fiscal environment, Executive Staff and Division Chiefs identified critical and unforeseen needs and reallocated resources to meet those needs. This resulted in zero growth to the CalPERS Administrative Budget during the FY 2008-09 mid-year cycle.

Acknowledging the State's continued financial challenges in FY 2009-10, Executive Staff maintained a similar path for the budget year process. Executive Staff and Division Chiefs met several times to carefully prioritize and substantiate the resource requests from divisions for the FY 2009-10 budget year. Consideration was given to the Enterprise's ability to fund critical needs utilizing existing resources in the upcoming fiscal year, the impact of postponing or reprioritizing workload, and the impact of deferring requests to the FY 2010-11 annual business and budget planning cycle. Consequently, there is no request to increase the Administrative Budget for FY 2009-10.

There is also a decrease in the amounts being requested for the Enterprise Project and CHBA Budgets compared to the current year.

As shown in Table 1, the proposed FY 2009-10 budget for all budgetary categories is \$1,719,033,000 and 2,315 positions.

Table 1

Category	Budget	Positions
Administrative Budget	\$334,196,000	2,315
Enterprise Projects	88,985,000	
CalPERS Headquarters Building Account	36,850,000	
Investment Expenses*	1,165,995,000	
Directed Brokerage Expenses*	2,106,000	
Third Party Administrative Fees*	90,901,000	
Total	\$1,719,033,000	2,315

* Information Only

Additional information regarding the \$1,719,033,000 proposed budget is displayed on Attachment 1.

Staff recommends approval of the Administrative, Enterprise Projects, and CHBA Budgets. An analysis of these three proposed budgets is presented in separate sections. Following these three sections, a description of projected Investment Expenses, Directed Brokerage Expenses, and Third Party Administrative Fees has been provided. Projections for these three categories are presented in the agenda item for informational purposes only.

ADMINISTRATIVE BUDGET

There is no proposed increase to the Administrative Budget for FY 2009-10. The Administrative Budget remains unchanged at \$334,196,000 and 2,315 positions. Through the business planning process, Executive Staff have opted to address new priorities through the redirection of resources within the Enterprise, or by deferring requests.

Resources in the amount of \$9,953,000 will be redirected in the budget year to address urgent priorities, which include \$2,427,000 in technical adjustments and \$7,526,000 of other Enterprise needs. As part of the 2,315 positions staff also recommends that 13 existing limited-term positions and related funding of \$1,912,000, which expire June 30, 2009, be made permanent and redirected to address current priorities.

Additional information regarding positions are displayed in Attachment 4.

ENTERPRISE PROJECTS BUDGET

The proposed FY 2009-10 Enterprise Projects Budget is \$88,985,000. This budget is comprised of funding for the Pension System Resumption (PSR) Project (Year 6), \$61,490,000, the Enterprise Transition Management (ETM) Project, \$6,371,000, Financial Services Integration Project (FSIP), \$18,988,000, and the Investment Office's Telecommunications Infrastructure Replacement Project (TIRP), \$2,136,000.

TIRP was budgeted for \$3,146,000 in FY 2008-09. Due to unforeseen delays in the project, a contract will not be in place until FY 2009-10. The estimated costs to be incurred in FY 2008-09 are \$125,000 and the request for FY 2009-10 is \$2,136,000 for a total project cost of \$2,261,000. This represents an overall decrease in the TIRP budget of \$885,000.

More information on these projects are displayed in Table 2.

Table 2

FY 2009-10 Enterprise Projects Budget		Dollars
PSR:		
Project Design and Implementation		\$40,073,000
Change Control		629,000
Project Management Support		2,459,000
Contract Staff		4,756,000
System and Infrastructure Support		225,000
Backfill Resources		8,152,000
Data Cleanup and Integrity Unit		1,899,000
Independent Project Oversight Consulting		1,857,000
Project Equipment and Software		125,000
State Staff		540,000
Legal Costs		500,000
Legacy Systems Decommissioning		275,000
Subtotal		61,490,000
ETM:		
Independent Project Oversight		795,000
Legal Costs		100,000
Change Control		240,000
Project Management Support		954,000
Information Technology Transition		1,883,000
Program Area Transition		2,399,000
Subtotal		6,371,000
FSIP:		
Accenture – Block 10		7,495,000
Accenture – FSIP PeopleSoft		7,003,000
Accenture – Performance Bond		138,000
CalPERS – FSIP PeopleSoft		4,352,000
Subtotal		18,988,000
TIRP:		
Telecom Equipment		2,136,000
Grand Total		\$88,985,000

CalPERS' HEADQUARTERS BUILDING ACCOUNT BUDGET

Staff recommends approval of \$36,850,000 for the FY 2009-10 proposed CHBA Budget. This budget represents a \$31,000 decrease, compared to the FY 2008-09 budget of \$36,881,000.

Prior to January 1, 2009, the CHBA represented the operating expenses associated with the CalPERS Headquarters Complex (Lincoln Plaza North, Lincoln Plaza East and Lincoln Plaza West) and the Emergency Operations Center. The proposed FY 2009-10 budget associated with these properties is \$34,693,000.

During the second reading of the FY 2008-09 Mid-Year Budget on December 18, 2008, the Board of Administration approved the CHBA Budget which included the transfer of 1800 3rd Street and 1800 7th Street properties from the Investment Portfolio to the CHBA. In addition to the proposed FY 2009-10 CHBA Budget of \$34,693,000 for the CalPERS Headquarters Complex and the Emergency Operations Center, a budget of \$2,157,000 to the FY 2009-10 CHBA is proposed to fund the projected annual operating expenses associated with the additional properties for FY 2009-10.

Table 3 displays the categories that comprise the proposed FY 2008-09 CHBA Budget.

Table 3

CHBA Categories	Dollars
Operating Expenses	\$17,613,000
Non-Operating Expenses	12,422,000
Facilities Support	6,815,000
Total	\$36,850,000

Attachment 6 provides additional information about the proposed CHBA Budget.

INVESTMENT EXPENSES

Projected Investment Expenses for FY 2009-10 are \$1,165,995,000. These expenses include base and performance fees for external investment advisors. Also included in this projection are costs associated with the master custodian, portfolio management services, real estate appraisal fees, and investment related legal and audit fees.

Attachment 7 provides additional information about Projected Investment Expenses.

DIRECTED BROKERAGE EXPENSES

The projected FY 2009-10 directed brokerage expenses are \$2,106,000. The directed brokerage arrangements are intended to maximize the funds available for investment research, analysis, analytical tools, and transaction services by implementing industry accepted practices related to the recapture of commissions paid. CalPERS uses commission recapture arrangements only.

Attachment 8 provides additional information about Directed Brokerage Expenses.

THIRD PARTY ADMINISTRATOR FEES

Third Party Administrators are responsible for the management of all aspects of the administrative services provided to the Long-Term Care program, the Self-Funded Health program, and Supplemental Income Plan. This includes, but is not limited to the development, training, coordination, monitoring and oversight of all systems, procedures, manuals and personnel that are necessary for the efficient and cost effective delivery of all contracted services. Services provided include underwriting/issuance, billing, advisory services, claims administration, customer service, records maintenance, and enrollment. Estimated Third Party Administrator fees for FY 2009-10 are \$90,901,000.

Attachment 9 provides additional information about Third Party Administrator Fees.

V. STRATEGIC PLAN:

CalPERS has an integrated planning and budget process. This process is integrated with the Three-Year Business Plan and aligns with CalPERS' strategic goals and objectives. The proposed FY 2009-10 budget supports these goals and objectives.

VI. RESULTS/COSTS:

Staff recommends approval of an Administrative Budget of \$334,196,000 and 2,315 positions. This budget represents a zero percent increase from the current FY 2008-09 Mid-Year Budget of \$334,196,000. Staff also recommends approval of \$88,985,000 for the Enterprise Projects Budget, and \$36,850,000 for the CHBA Budget.

If accepted by the Finance Committee and approved by the Board at the March 18, 2009, meeting, this item will be presented to the Finance Committee on April 17, 2009, as a second reading. If the second reading is accepted by the Finance Committee and approved by the Board at the April 22, 2009, meeting, the FY 2009-10 budget will take effect July 1, 2009.

In accordance with control language included in the Budget Act of 2008, the information contained in this agenda item will be submitted to the Joint Legislative Budget Committee and the fiscal committees of the Legislature, State Controller, and the Department of Finance. It will also be provided to the Legislative Analyst's Office, and Secretary of the State and Consumer Services Agency. Submitting this agenda item will take place upon acceptance by the Finance Committee and approval by the full Board. A draft transmittal letter is attached for your review.

VII. ATTACHMENTS

The following attachments contain details for the FY 2009-10 proposed budgets/projected expenditures:

- Attachment 1 Proposed FY 2009-10 Budget
- Attachment 2 Administrative Budget Summary by Object of Expenditure
- Attachment 3 Budget by Fund Source
- Attachment 4 Summary of Budgeted Positions
- Attachment 5 Budgets by Basis Points
- Attachment 5.1 Six Year Basis Points History
- Attachment 6 CalPERS Headquarters Building Account Budget
- Attachment 7 Projected Investment Expenditures
- Attachment 8 Directed Brokerage Program Est Commissions-/-Expenditures
- Attachment 8.1 Estimated Directed Brokerage Expenditures by Category and Vendor
- Attachment 8.2 Directed Brokerage Participants
- Attachment 9 Third Party Administrator Fees

STEVE PIETROWSKI, Assistant Chief
Fiscal Services Division

RUSSELL G. FONG, Chief
Fiscal Services Division

JOHN HIBER
Assistant Executive Officer
Administrative Services Branch

Members of the Finance Committee
March 13, 2009

Attachments